

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

February 14 , 2005

IN RE:)	
)	
COUNCE NATURAL GAS COMPANY'S)	DOCKET NO.
ACTUAL COST ADJUSTMENT (ACA) FILING)	04-00359
FOR THE TWELVE MONTHS ENDED		
SEPTEMBER 30, 2004		

**ORDER ADOPTING ACA AUDIT REPORT OF
TENNESSEE REGULATORY AUTHORITY'S ENERGY AND WATER SECTION
OF THE UTILITIES DIVISION**

This matter came before Chairman Pat Miller, Director Deborah Taylor Tate and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority"), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on November 22, 2004 for consideration of the Actual Cost Adjustment ("ACA") Audit Report (the "Report") of the Authority's Energy and Water Section of the Utilities Division (the "Staff"). The Report is the result of Staff's audit of Counce Natural Gas Company's ("Counce" or the "Company") annual deferred gas cost account filing for the year ended September 30, 2004. The Report, attached hereto as Exhibit 1 and incorporated by this reference, contains the audit findings of the Staff, the responses thereto of the Company, and the recommendations of the Staff to the Company in addressing the findings.

The Company submitted its ACA filing on October 13, 2004, and the Staff completed its audit of the Company's filing on November 3, 2004. On November 4, 2004, the Staff issued preliminary ACA audit findings to the Company, and the Company responded to the

findings on November 4, 2004. The Staff filed its Report with the Authority on November 5, 2004.

The Report contains five findings made by Staff, and the Company agrees with all of the findings. The first finding is that Counce used an incorrect beginning balance in its calculation of the September 30, 2004 balance in the ACA Account. This error resulted in an additional under-recovery of \$261.43 in Counce's gas costs. The second finding is that Counce overstated its gas cost recoveries for the months of October 2003 and January 2004. Therefore, according to Staff's calculation, there was a \$62.70 net under-recovery of Counce's gas costs. The third finding is the result of a combination of two errors. The Company reported the wrong ACA refund factor for the month of October 2003, and it did not bill a refund factor to its customers for the months of July, August and September 2004. The result of the two errors is that there was an under-recovery of Counce's gas costs by \$471.05. The fourth finding is that the Company understated the amount of interest on the account balance owed by its customers for the audit period. This error caused Counce to under-collect gas costs by \$39.74. Lastly, the fifth finding is a result of a bill audit conducted by the Staff. The Company failed to bill its base rate of \$2.13 per MCF to its customers for the month of July 2004. This error resulted in a total of approximately \$1,122.74 of lost revenue to the Company. The Staff recommended that the Company recalculate individual bills and actual adjustments be surcharged to the specific customers in November to recoup the lost revenue.

The Report states that the corrected balance in the Company's ACA account as of September 30, 2004 is positive \$5,397.17, which represents under-recovered (or under-collected) gas costs. The Report recommends that the Company be authorized, beginning

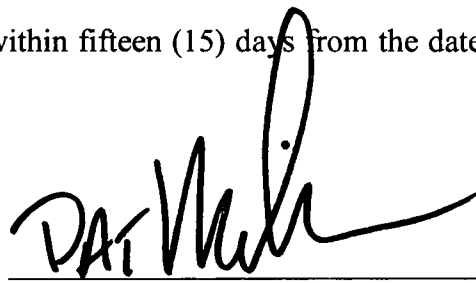
with its November 2004 billing, to include an ACA adjustment factor of positive \$0.27 (surcharge) per MCF in its gas rate, resulting in a new billing rate of \$12.27 per MCF for residential, commercial, and industrial customers. The new ACA adjustment factor would remain in effect until the Staff's next audit is completed. In addition, the Report recommends that the Company notify customers in a bill insert of the reason for the one-time surcharge necessitated by Finding #5.

After consideration of the Report, the voting panel unanimously approved and adopted the findings and recommendations contained therein.


IT IS THEREFORE ORDERED THAT:

1. The Actual Cost Adjustment Audit Report relative to Counce Natural Gas Company's gas costs for the year ended September 30, 2004, a copy of which is attached to this order as Exhibit 1, is approved and adopted, and the findings and recommendations contained therein are incorporated in this Order as if fully rewritten herein; and

2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.


Pat Miller, Chairman


Deborah Taylor Tate, Director


Ron Jones, Director